11: Logio S-4 (no date) 1936 EE1 Bulgaria EE1

ECONOMIC HISTORY

It is from 1885 onward that a study of statistics becomes informative and the rate of advance more easily traceable since it was at that date that the first step towards the partial realisation of the national unity was taken, namely the union of the principality of Bulgaria with the autonomous province of Eastern Rumelia. The territorial accretion thereby secured was maintained until the Balkan wars of 1912-3, so that it is retatively easy to follow the country's development from a study of the statistics provided after 1885 since no calculations have to be made to adjust numbers to territorial alterations. No such change occurred until the Balkan and World wars, when the area of Bulgaria was increased from 96,345.5 in 1912 to 111,836.8 square klm. in 1913, and finally reduced to 103,146.1 in 1919.

From the following statistical table of exports and imports one may form an opinion of the scantiness of Bulgaria's resourses, since with a few exceptions each year reveals an unfavourable trade balance and Bulgaria never possessed any investments abroad, nor rendered any services, from which she could derive any invisible income wherewith to balance the deficit of her commercial balance.[1] The abrupt increase in the figures cited after the quinquenial period 1916—1920 is due to the gradual depreciation of the leva, which from its equivalent of a gold franc prior to the world war was reduced to the level of only 0.03745 gold franc, or 139 leva to a gold dollar, at which rate it was stabilised in 1928.

[1] Before the war a certain number of market gardeners emigrated temporarily to neighbouring countries and remitted their savings home. It may also be presumed that the deficit in the commercial balance was not as large as indicated by official statistics for merchants were occasionally inclined to underestimate their exports in order to pay fewer dues as was revealed by Minister Burov in a speech in the Sobranye on April 1928. The income derived from foreign tourists is reckoned at 40 million leva a year.

BULGARIA-PAST & PRESENT

175
•457

YEARS	IMPORTS in million leva	EXPORTS in million leva	BALANCE in million leva
1885—1890	350	310	— 40
1891—1895	416	386	— 30
1896—1900	337	339	+ 2
1901—1905	474	597	+ 123
1906—1910	699	591	— 108
1911—1915	916	698	— 218
1916—1920	4,002	2,993	— 1009
1921—1925	24,924	22,628	— 4296
1926—1930	32,330	31,064	— 1266
1931	4,660	5,934	+ 1274
1932	3,471	3,383	— 88
1933	2,202	2,846	+ 644
1934	7,247	2,535	+ 88

175
457
652

From the foregoing figures it becomes obvious that Bulgaria had to have recourse to foreign assistance in order to secure the necessary equipment of a modern State as it was unthinkable for her to raise the requisite capital locally. The following loans were contracted prior to the Balkan wars, the proceeds being used for military equipment, for the construction of railways and ports or the financing of expenses incurred through a rather premature development of the political organisation and occasionally through a not very judicious employment of public funds.

Year	Nominal Interest %	Duration of repayment in years	Nominal amount in million leva	Price of issue	Net amount in million leva	Real Interest %
1888	6	33	46,777	at par	46,777	6·
1889	6	33	30,000	86·03	25,650	7·5
1892	6	33	124,962	86·41	107,342	7·34
1902	5	50	106,000	78·32	87,367	6·72
1904	5	50	100,000	75·24	82,383	7·03
1907	4·5	60	145,000	79·91	123,250	5·94
1909	4·5	50	100,000	85·56	86,000	5·56
1909	4·5	75	82,000	at par	82,000	4·75
			734,739		640,769	

The 1888 loan was floated in London, its proceeds being entirely devoted to the purchase of the Rustchuk-

7/ [Errata: should be 224] — Analyst]

ECONOMIC HISTORY

Varna railway line built in 1860 by an English company to which the Turkish government had guaranteed a revenue of 7%, a charge the Bulgarian government considered unduly heavy and out of proportion with the net income derived from the exploitation of the railway.[1]

The proceeds of the 1889 loan were used for the construction of the Tsaribrod—Sofia—Vakarel, and that of the Yambol—Burgas railway lines. The loan was floated in Vienna as the obligation to construct these lines had been imposed by Austria-Hungary at the Congress of Berlin. A mortgage on these railways secured the loan. The subsequent loan was also contracted in Vienna and served to reorganise the army and to construct the Kaspitchan—Sofia railway line and the building of the two ports of Varna and Burgas. A mortgage on both ports and the railway being taken as security for the loan.

The 1902 loan was the first of a series concluded in France, for Bulgaria having in the meanwhile adopted a distinctly pro-Russian attitude, the Paris money market was opened to her at the intercession of Russia, France's

[1] The capital of the company which constructed this line was represented by 45,000 shares of £ 20 each, or a total of £ 900,000 or 22,500,000 gold francs, and these shares were never quoted above ¾ of their nominal value. A commission of Bulgarian engineers presided over by the late Serbian Premier, N. Passitch, at the time in the employ of Bulgaria in his capacity of an engineer, had evaluated the line as worth 18,575,000 gold francs, which was a fair estimate, yet the Bulgarian Premier, Stambulov, was prevailed upon to pay more than double this sum. This transaction was strongly resented in Bulgaria, but owing to the censorship little was said about it in the Press at the time; and there were good reasons for such resentment, for Bulgaria had been mulcted out of a considerable sum merely in order to placate certain financial circles as likely to influence British political support at a time Bulgaria was traversing a critical period. A very unfortunate precedent being thus created which has since caused havoc in Bulgarian finances.

175 ally. The proceeds of this loan served to make good the budget deficits of the period 1895-1900 amounting to 53 •457 million leva and mainly due to a period of bad crops, to 65- pay off the sum of 17,390,664 to the Turkish and Russian governments, due according to the stipulations of the Treaty of Berlin, to pay for 2,687,515 leva worth of armaments, and reimburse certain advances made to the Bulgarian government by the Bulgarian State Bank. This was the first loan to which a special revenue was assigned as a guarantee and a special controller delegated to Sofia on behalf of the bondholders to supervise the sale of the special revenue stamps affected to the tobacco tax.

In 1904 yet another loan was floated in France to which the surplus of the tobacco tax and the proceeds of revenue stamps were assigned as pledges. Owing to the revolution of 1903 in Macedonia, field artillery of the value of some 25 million leva had been purchased from the French firm of Creusot and other military expenses had been incurred and had to be frayed, the balance of the loan was used for the construction of the railway lines Tirnovo — Trevna, and Sofia — Kustendil. Military expenditure was steadily increasing and proving an intolerable burden to the State, yet owing to the anarchic situation in Macedonia and the prevalent belief that Bulgaria was in duty bound to interfere some day on behalf of her unredeemed kinsmen in Turkey, the Bulgarian people assumed stolidly the financial burdens imposed on them. Thus during the two years 1904 and 1905 some 55 million leva were expended solely on armaments, a sum exceeding half of the budget figures of these years.

It must be admitted that the French armament firms which had found an excellent client in Bulgaria must have largely contributed in persuading French Banks as to the advisability of financing the loans made to Bulgaria, which were being gradually floated at shorter and shorter intervals.

ECONOMIC HISTORY

175 457 652

In 1907, a further loan was issued in Paris out of which sums of 20,935,000 and 31,584,500 leva were earmarked for the conversion of the 1888 and 1889 loans. The 1907 loan having been issued on a 4·5% basis it was thought that a considerable economy would be effected by reimbursing the first two loans bearing 6% interest. Unfortunately, owing to the fact that the bonds were quoted above par, the Bulgarian treasury incurred instead a loss of some 21·5 million leva in carrying through this operation The balance of the loan was employed, to the extent of 32 millions for the buying of war material, while another 32 millions were allotted to the construction of railways and some four millions devoted to the settlement of a floating debt. The same pledges which had been assigned to the 1902 and 1904 loans were also affected to the service of this loan as the revenues from these sources were quite adequate. Thus the revenues from the tobacco tax and 'mourouriye' yielded 17,677,000 in 1909 and 18,183,000 leva in 1911, wnile the yield from the revenue stamps amounted to 6,088,000 and 6,638,000 leva respectively, the service of the three loans necessitating in 1909 the sum of only 18,265,000 leva, thus leaving a surplus of some 5 millions at the disposal of the Exchequer.

The elevation of Bulgaria to the rank of a Kingdom in 1908, and the attending political complications which rendered the mobilisation of the army indispensable had caused a heavy drain to the treasury, and in 1909 another loan was contracted, the proceeds of which were entirely absorbed in reimbursing the State's debts to contractors and to the National and Agrarian Banks, a sum of over 58 millions being due to these two State institutions. This loan was floated in Vienna, and no real guarantees demanded by the Austrian banks, a fact which may be explained by the desire of Austria to express her satis-

11: Logio S-4 (no date) 1936 EE1 Bulgaria EE1

175
•457
65-2

faction at the way Bulgaria had arranged for her proclamation of independence to precede Austria's annexation of Bosnia and Herzegovina in 1908. Simultaneously Bulgaria assumed a liability of 82 millions to Russia, the latter having undertaken to indemnify Turkey on Bulgaria's refusal to continue the payment of her tribute after her proclamation of independence and provided the requisite money (some 42 million leva) wherewith the railways constructed and operated in Southern Bulgaria by the nominally Turkish company of the Chemins de Fer Orientaux were purchased by the Bulgarian government.

By the end of 1911 Bulgaria had a consolidated debt of 603,799,618 and a floating debt of 29,493,524 gold leva which with a population of 4,390,325 represented a per capita charge of 144·25 leva. From the proceeds of the foreign loans some 283,058,566 leva had been employed for the construction or purchase of railways of a total milage of 1,931 klm. and in the building of the ports of Varna and Burgas, 102,670,856 leva had been employed for the purchase of military equipment and the balance was absorbed by budgetary deficits, the liquidation of the tribute payable to Turkey (over 40 millions), and other administrative expenses. It should be remembered that the latter item included the building of schools, the constructions of roads, bridges, telegraph and telephone lines, barracks, government buildings etc. all of which were almost totally lacking, so that on the whole, few of the successive Bulgarian governments can be accused of having unduly wasted public money. The national wealth had been estimated in 1911 by the late Cyril Popov at 10,500 millions and the national revenue at 1,647 millions, equal to 387 gold leva per capita, which could only provide for a very low standard of living, since yet another 20% had to be provided out of it for the defraying of public and municipal taxation.

11: Logio S-4 (no date) 1936 EE1 Bulgaria EE1

ECONOMIC HISTORY

The State budgets were approaching the 200 million figure, but were not always balanced. Thus in 1910 and 1911 the revenue figures stood respectively at 181 and 198 millions while expenditure attained 198 and 181, leaving alternatively for each year a deficit and a surplus of 17 millions. The service of the debt required slightly over 36 millions and absorbed 18% to 20% of the annual revenue of the State, while military expenditure required about 44 millions. Unfortunately the trade balance wherewith the service of the foreign debt had to be provided continued to show an excess of imports over exports, the years 1910 and 1911 showing respectively debit balances of 48 and 15 millions, and this state of affairs forced Bulgaria, so long as she was unable to expand her exports to continue borrowing in order to meet her monetary obligations abroad and to pay for the excess of her imports, which were indispensable for her development and the sustainance or her people.

So that even prior to the Balkan wars, when Bulgaria was considered powerful and flourishing and her financial situation inspired confidence she was in fact a very poor country living beyond her means and only able to meet her foreign obligations by indulging in a policy of borrowing abroad which was reckless, but which was indulged in for patriotic motives, because it was hoped that when finally Macedonia would have been incorporated, the increased revenue the State would thereby derive would permit the shouldering of the indebtedness incurred mainly in preparing for this territorial expansion. Bulgaria's reputation of a good payer was due to the scrupulous exactitude with which both private and public debts were being met and the extreme sobriety and parsimoniousness of her people which had enabled them to build up a complete machinery of State not only by borrowing but also out of their hard-earned and slender incomes.

BULGARIA-PAST & PRESENT

175
•457
65

The frugality and thriftiness of the Bulgarian people stood them im good stead for it was thanks to these qualities that they were able to assume practically unaided the financing of the Balkan wars. The 1912 and 1913 budgets closed with deficits of 140 and 181 millions, owing to the falling off of the revenue and the increased military expenditure and were met partly by the expedient of discounting treasury bills abroad namely 75 millions with the Banque de Paris and des Pays Bas, 30 millions with Austrian Banks and 27·7 millions with the Russo-Asiatic Bank, and partly by advances from the National State Bank which attained 142.9 millions by the end of 1913.

Naturally the unfortunate outcome of the Balkan wars found Bulgaria utterly exhausted and in urgent need of funds. An internal loan of 90 millions was inadequate to relieve the pressure on the treasury and as the budget of 1914 was pointing to a deficit of 68 millions, the government was constrained to seek foreign help at all costs. Owing to the pro-Austrian proclivities of the Radoslavov government, the French Banks demanded as a preliminary condition to their granting a loan, that Bulgaria should furnish assurances that she would no longer pursue an anti-Russian policy. Unfortunately these were not forthcoming. On the contrary the Bulgarian government opened negotiations with a group of German and Austrian banks, headed by the Diskonto Gesellschaft, in spite of the violent obstruction of the Opposition and raised a loan from this German banking group. Though the members of the Radoslavov Cabinet have always denied that any political clauses were attached to the loan, this may be considered as forming the preamble to Bulgaria's engagement to the Central Powers, for the Germans have on many occasions declared that the question of Bulgaria's allegiance had been definitely fixed on the conclusion of this loan. The loan was of a nominal amount of 500

million leva. The conditions attached to it were distinctly onerous for they included the cession of the Pernik coal mines belonging to the State, a concession for the construction of a railway line Rakovski—Porto Lagos and the building of its harbour, while specific revenues were affected to it as a guarantee, namely the surplus of the tobacco tax and revenue stamps over the share already affected to the 1902, 1904 and 1907 loans, the proceeds of the State monopoly of cigarette paper and the proceeds of the revenue from the customs. Owing to the outbreak of tne World war the German banks advanced only some 270 millions and though it had been stipulated that the Bulgarian Treasury bonds emitted during the Balkan wars would be reimbursed, only those held by the Austrian banks were paid while the German government placed an embargo on the 27·7 millions due to the Russo-Asiatic bank.

175
457
652

How Bulgaria financed her participation in the World war.

The cost of Bulgaria's participation in the World war was borne practically unaided, for except for a part of the loan issued by the Diskonto Gesellschaft no other effective aid was received. A convention was signed in September 1915 between Germany and Bulgaria, providing for the granting to the latter of an advances of 50 million leva during each of the four months the war was expected to last, and stipulating for complementary advance should the war last longer. Germany continued to extend these credits only to the end of 1917, so that the total amount secured by Bulgaria on this head attained 1350 million leva. But in fact, not a single penny ever reached Bulgaria, for these monthly advances were deposited in a Berlin bank to the credit of the Bulgarian National Bank which was authorised to issue a corresponding amount

III Logic S-4 (no date) 1936 EE1 Bulgaria EE1

175
457
652

of paper money which it placed at the disposal of the Bulgarian government. These deposits were to be utilised solely for this purpose, and also for the payment of goods purchased in Germany and with the consent of the German authorities; but as during the war Germany had little to export, the amount of merchandise thus purchased did not exceed 350 million leva. The balance of about 1,000 millions which had served as cover to the increased fiduciary circulation of the Bulgarian National Bank owing to its being labelled in marks was totally lost to Bulgaria when the mark depreciated after the armictice. The National Bank of Bulgaria attempted to transfer part of this sum to Switzerland, but was precluded from doing so by the initial arrangements entered into by the two governments and subsequently by Article 145 of the Treaty of Neuilly which obliged Bulgaria to transfer to the Reparation Commission any claims she might have to payments or reparations by her late Allies. Besides these monthly credits, munitions and military equipment to the value of 1440 million leva were received from Germany and of 73,398,500 from Austria. Against these sums the Bulgarian government had a larger counterclaim amounting to 2,148,814,923 leva, several items of which represented more tangible value than the nominal monthly German advances, for they represented foodstuffs, raw materials and 240 millions in Bulgarian currency delivered to the German military authorities. It may be affirmed that the only financial service rendered by Germany was that of enabling the Bulgarian National Bank to increase its fiduciary circulation from 369,791,000 leva at the end of 1915 to 2,298,617,000 at the end of 1918, and this was obviously of a very questionable value for in the end owing to the total depreciation of the mark it was the Bulgarian people who had to shoulder the entire loss caused by this inflation. As M. Stefanov the Minister of Finance,

declared in the Sobranye on May 10, 1932: „Bulgaria was the sole country to conclude the war with so few debts, for she only received 270 millions from the Diskonto Gesellschaft, while she remained a creditor to the extent of 840 millions to Germany." This statement may be compared to the one M. Stefanov made on July 10, 1928, when he maintained that Bulgaria had lived during the world war on her own resources, but had been exploited and robbed by her allies, the latter owing her at the end of the war, 860 million leva.

The budgets for the four years 1915 to 1918, closed with a total deficit of 2,270 millions due in the main to increased military expenditure. This outlay was met by the expedient of increasing the fiduciary circulation and by advances to the State from the National Bank. At the end of 1918 the metallic cover of the bank still amounted to 64 millions in gold and to 19 millions in silver, but as the country's food supply had been utterly exhausted, flour to the value of 27·25 million gold leva in cash had to be purchased in 1919 from the United States and this drain on the gold reserve coupled with the fact that the balances abroad (mainly in Germany) on which the fiduciary circulation was secured had been rendered worthless through the depreciation of the mark, brought about a rapid fall in the value of the leva; and this was further accentuated as the terms of the Treaty of Neuilly became known. Thus the leva fell from 0.19 gold franc, at which level it was quoted at the end of 1919, to 0·07 at the end of 1920, and to 0.036 at the end of 1921.

Part of the military expenditure incurred during the world war was met out of the post-war budgets, so that it is difficult to assess it correctly, but roughly it may be said to be represented by the budgetary deficits of the years 1915-1921, amounting to 5,706 million leva, to which should be added the amounts of the two internal loans

raised in 1914 and 1921, of 83, and 157 million leva respectively, as well as that of the 270 millions advanced by the Diskonto Gesellschaft, which would bring the total military expenditure up to 6216 million leva, of varying value, however, since the leva had depreciated from the intrinsic equivalent of a gold franc in 1914 to as little as 0.036 gold franc in 1921. These 6216 millions were financed by the expedients of increasing the fiduciary circulation which from 226,615,000 leva at the end of 1914 rose to the record figure of 4,622,833,000 on Nov. 30, 1924, and by the advances of the National Bank which at the end of the financial year 1921-1922 amounted to 4,206 million leva.

This estimate is for military expenditure incurred by the State during the World war, and it is permissible to presume that even parts of the budgetary deficits of the years 1921 to 1923 represented expenditure on this head. It takes no account of the losses inflicted on the community at large, or of the war pensions the State had to serve subsequently to the disabled and their dependents. The number of killed was according to a statement made by the Minister of War in the Sobranye on Nov. 22, 1927, 53,825 during the Balkan wars and 115,048 during the World war.

In 1929 there were 98,000 persons receiving pensions as war invalids or as dependents of such, and the amount of the annual charge this constituted to the budget was 372 million leva, or less than a paltry £6 a year per person at the then prevailing rate of exchange. This was all a grateful country could afford to pay to those of her sons who had been disabled in defending her. When such heroic sacrifices are so poorly requited, it is not surprising that its citizens' devotion towards it should perceptively cool and that they should turn for consolation to such subversive doctrines as Communism, which holds out the promise of greater justice and equity.

11: Logic S-4 (no date) 1936 EE1 Bulgaria EE1

THE LEAGUE OF NATIONS' LOANS

128 Owing to the non-application of the principle of nationality, regions almost exclusively peopled by Bulgarians were placed under the sovereignty of other Balkan States. The latter though they assumed certain obligations towards the ethnic minorities they incorporated, made light of such safeguards as the Treaties extended to these minorities and by a policy of ruthless denationalisation forced large numbers to emigrate and seek refuge in Bulgaria. A few years after the termination of the war, some 350,000 mostly destitute people had thus come to seek shelter in Bulgaria. They constituted a heavy burden on the country since it had to provide out of its scanty resources for the maintenance of the greater number of these unfortunate people. If the League of Nations had watched and insisted on the carrying out of the obligations imposed by the Treaties, it would have been very easy not only to have stemmed this flow of destitute people into Bulgaria, but to have obliged Bulgaria's neighbours to repatriate most of these unfortunates who had been driven from their homes by persecution.

457 However nothing was done, and the Bulgarian Government finding it difficult to raise the requisite means wherewith to assist this mass of suffering humanity, appealed to the League of Nations for aid. It was reasonable to expect that the League would respond to this appeal and succour Bulgaria without seeking to exploit the misfortunes of a luckless nation, but instead, capital was made out of Bulgaria's helplessness in order to squeeze something further out of her. It is necessary for British and American holders of these loans floated under the aegis of the League, that they should realise how shamefully Bulgaria has been exploited in her hour of need for the benefit of certain International Financiers,

THE LEAGUE OF NATIONS' LOANS

and how these grasping Shylocks have by their disgraceful manoeuvres consummated Bulgaria's ruin and brought about her insolvency. Certainly, this action was rendered possible by the abjectness of certain Bulgarian politicians, who either out of purblindness, astuteness or for personal or party motives, facilitated the spoliation of their country, brought ruin to her and at the same time involved in that ruin a number of well-intentioned people who thought that by subscribing to the loan raised purposely for the settlement of refugees in Bulgaria under the sponsorship of the League of Nations, they were doing a praiseworthy act and at the same time were not exposing their savings to any untoward risk. Sir Arthur Salter in his recent book "Recovery" p. 106 grandiloquently asseverates:

457

"I venture to challenge a denial from any responsible person acquainted with the public borrowings of the years 1926—28 of the assertion that, with the exception of loans recommended by the League of Nations and the Central Banks, the bulk of the foreign loans in these years to public authorities in debtor countries would better not have been made.".

Why he excepts League of Nations' loans, it is hard for one to say, but there is not the slightest doubt that if there were loans which ought never to have been made, it is these two loans to Bulgaria.

The financial Committee of the League of Nations as soon as Bulgaria's demand was submitted to it, decreed that as a preliminary condition Bulgaria ought to agree to revalorise gradually her pre-war loans making them reinbursable in gold francs instead of paper francs, in which currency the Bulgarian Government was repaying them. The Bulgarian Government was paying regularly both interest and annuities in full in French francs, the majority of the bonds being labelled in francs, while British subjects who held the same script issued in sterling had been prevailed upon to accept payment also in

11: Logic S-- (no date) 1930 'EE1 Bulgaria EE1

457 French francs so that they might not be unduly advantaged in comparison with their French colleagues whose national currency had depreciated to 1/5th of its original value. This was a sensible arrangement, for if wealthy France was repaying the gold francs she had borrowed from her creditors in depreciated paper francs it could not be expected that Bulgaria after the amputation of her wealthiest provinces should proceed to refund her French creditors on a more lavish scale then they themselves were being reimbursed by their own State. It is really surprising that these gentlemen of the Financial Committee should have never heard of France's behaviour towards British investors in the French War Loans and of the controversy which arose between them and the French Government over the decision of the latter to repay them in paper francs instead of gold francs, which decision was maintained in spite of the repeated protests of the injured party, and that despite the precedent thus created by France they should have proceeded to reverse it in favour of the nationals of the very country which had issued it. Of course, if Bulgaria had adequate resources to pay her liabilities, she would be free to dispose of her money as she liked, but when her obligations to her American and British creditors are left indischarged on the specious plea of an inadequacy of resources, while such available resources as exist are being utilised to pay her French creditors over and above what they ought to receive, American and British bondholders have a right to protest against such unfair discrimination. Why should Bulgaria be allowed to pay her debts to the French in gold francs instead of in paper francs, depriving thereby some of her creditors of their legitimate share of assets in order that some others may be advantaged? The City of Tokio loan contracted in 1912 in francs in spite of all the pother roused in France and her insistance

on its being reimbursed in gold francs by a decision of the Supreme Japanese Court taken in December 1934 is to e paid in paper francs. 45?

If Japan is allowed to repay her debts to France in *paper* francs why should Bulgaria be constrained to reinburse hers in *gold* to the manifest prejudice of her other creditors? It is obvious that by advantaging some at the expense of others the Financial Committee of the League of Nations did not act independently in the matter, but that it was biassed in favour of certain French banks which were the principal holders of these Bulgarian bonds. Thus in order to secure the privilege of obtaining the League of Nations' help for her refugees, Bulgaria was constrained to increase her disbursements for the service of her pre-war loans from 81 million leva in the year 1921 to a sum gradually rising to 270 in 1931 and to 486 in 1934. The service of the Refugee Loan demands 186 million leva annually, and bears a nominal interest of 7 %; it is easy to calculate that this extra burden imposed on the Bulgarian Exchequer, the acceptance of which had been made an indespensable preliminary to the floating of the Refugee Loan, brought up in 1931 the interest payable on this Loan to about 10·5 %, the extra 3·5 % being pocketed by people who did not subscribe a single penny of the money handed over to Bulgaria for her refugees! If the Financial Committee was not intent on favouring thus certain particular interests, there was another way of coming to the assistance of Bulgaria, and this was pointed out repeatedly in the Bulgarian Chamber by M. Muchanov, the former Bulgarian Prime Minister and by others. As it is known, Art. 132 of the Treaty of Neuilly imposed a mortgage on all assets and revenues of Bulgaria in order to secure the payment of Reparations and this right was waived by the Reparation Commision so that the two League of Nation loans might have certain

•457 revenues assigned to them. This same Commission agreed that the payment of reparations would be suspended entirely if their transfer was likely to compromise the stability of the Bulgarian currency and thus endanger the payment of the service of these loans. So that it would have been quite practicable for the Financial Commission of the League of Nations to have given their support to the suggestions which came from Bulgaria. Thus M. Muchanov speaking in the Sobranye on September 27,1926 affirmed: „To grant such privileges to the pre-war loans and instead of maintaining the existing convention, to accept to repay them on the basis of 100% in gold is not a humane act... if the payment of Reparations had been postponed, Bulgaria could easily have financed the settlement of her refugees by employing for five years the reparation annuities for this purpose without assuming any other burdens such as the upkeep of commissaries and delegates, like M. Charron and other honourable people, whose first thought on their arrival here was to buy a Mercedes car costing 700,000 to 800,000 leva". On December 7,1926 M. Muchanov after denouncing the loan as not a humanitarian one since it increased the amount payable on the pre-war loans and thereby crippled Bulgaria, went so far as to affirm that Bulgaria could have financed if necessary the settlement of the refugees out of her own resources.

„The State by economising might itself have found adequate means for the refugees. We could raise, 200 millions a year for a period of 6 years or a total of 1200 millions just as previous governments had provided 160 millions during each of the preceeding two years".

Another deputy, M. A. Gospodinov, approving the above added that Bulgaria had been shamefully exploited while she was in a difficult position. In fact M. Muchanov was not very far out in his estimate of the approximate cost

of installing the refugees. Out of a nominal sum of 2,246 million leva provided by the Refugee loan, some 1,613 millions only were used for assisting them and the money was expended not in a lump sum but in the course of 5 years in varying instalments. The former Finance Minister, M. Stefanov, speaking in the Sobranye on May 10 1932, affirmed: „We could have avoided contracting the Refugee loan since it was spent in instalments of about 170 millions a year, practically the equivalent of its annual service. It was a huge mistake since it obliged us to accept the revalorisation of the pre-war loans." Naturally the treatment meted out to Bulgaria was strongly reasented and often denounced. Thus M. Ilia Yanulov, a socialist deputy, well known to League of Nations' circles did not hesitate to deliver himself in the following terms in the Sobranye on April 11, 1928:

„From the proceeds of the Refugee loan only 1450 millions will be used for the refugees, almost a whole million has been diverted to other purposes such as the payment of old debts and reparations and yet this loan was dubbed humanitarian. It was a scandalous proceeding without precedent in all financial history. Owing to the revalorisation of pre-war loans we assume to reimburse within 39½ years a total of 6,624 millions in repayment of the 1,450 millions spent on the refugees. The Financial Committee of the League of Nations was nothing but an advisory body of bankers and not a part of the League of Nations. We should refuse to bow to such an idol. Why should we assume this liability of 6·50 milliard leva? In order to stabilise an international order which permits Serbia to annihilate Bulgarians (in Macedonia), Greece to expel Bulgarians from her territory and Rumania to deprive Bulgarians of the lands they possess (in the Dodrudja)"?

No wonder that Bulgarian deputies seeing the shameless exploitation to which their country had been subjected openly advocated default. Thus on June 9, 1932 deputy P. Stoev speaking in the Sobranye stated:

BULGARIA-PAST & PRESENT

457

"Russia has renounced her 80 millions we owed her. The masses of the nation desire the complete writing off of all the other State loans".

Another well known deputy M. P. N. Dackalov followed by stating that Bulgeria had already paid two milliard gold francs on behalf of reparations and this was bleeding Bulgaria white. He also denounced the insincerity of the former Minister of Finances, M. Mollov, who at Geneva represented Bulgaria's position as financially good and her budgets as showing surpluses, while at the same time he sent delegates to Paris to show that the contrary was the case. To ease the atmosphere, M. Stefanov, the Minister of Finance, then got up and stated: that Sir Arthur Salter in his report recommended that the loan to the refugees should not exceed 600,000 to 650,000 leva, but every effort was made to increase the total of the loan for which increase there was no justification whatever and this led to the demand for the revalorisation of the pre-war loans. This was confirmed on another occasion by Prof. G. P. Ghenov in the Sobranye on May 16, 1932 who asserted that if the Government had had the courage to reject the Refugee loan, the revalorisation of Bulgaria's pre-war loans would have never been imposed.

457
661

From the above it becomes evident that the Financial Committee of the League of Nations did not act impartially and that it committed an act of favouritism on behalf of the holders of the Bulgarian pre-war loans and grossly prejudiced thereby the interests of the subscribers of these Bulgarian League of Nations' loans floated at its recommendation and under its auspices. There is no doubt that certain members of the Liaptchev Government, which was in power from 1926 to 1931 are also largely to blame for what has occurred and they were overtly accused of benefitting by these transactions, thus deputy T. Tonkov on May 14,1932 did not hesitate to in-

terpellate M. Mollov in the Sobranye in the following terms which can hardly be considered as equivocal: 457 661

'I do not know whether you used the proceeds of these loans to establish yourself or the refugees for the latter still live in huts'.

As for the Government's responsibility in saddling Bulgaria with this onerous arrangement, Dr. Beshkov declared on April 20, 1932 in the Sobranye that Liaptchev and Burov were to blame for agreeing in 1926 to reimburse the pre-war loans in gold instead of in paper francs.

When such an example of gross spoliation was set at the top by those who were supposed to supervise and control the funds raised on behalf of the refugees we need not feel suprised that lesser officials manifested little zeal in practising economy and preventing embezzlements. Obviously, the borrowers were encouraged to have a few years of artificial prosperity in order to forget the bitterness engendered by the imposition of such onerous clauses.

Thus in July 1933 the Bulgarian Press cited the names of certain architects and engineers employed by the State in supervising the settlement of the refugees, of having embezzled some 15,000,000 leva, and it was further stressed that out of the construction of 264 houses built at Kavacli for housing the refugees some 5 millions had been misappropriated by them. These malversations were first denounced by M. Vlassakov, a courageous outspoken journalist, and he continued his campaign of denunciation in the *Mir* in spite of M. Charron's (the League of Nations' delegate in Bulgaria) efforts to hush up the matter, and the menaces and threats of the incriminated parties. For a time he was even prevailed upon by official circles to cease writing as he was assured that a commission of inquiry had been appointed to examine into these peculations, but as little was done and the

culprits remained as active as before, he returned to the charge and continued his exposures. He affirms that over 18,000,000 leva were embezzled by two persons alone who had issued paying orders without adequate justification.

Another revelation as to the improper use of the money provided by the Refugee loan was made by the "Radical" December 6, 1932. This paper being the mouthpiece of M. Kosturkov, former minister of railways, was qualified to know how matters stood. 300 millions from the proceeds of the Refugee Loan were earmarked for the construction of the Rakovski-Mastanli railway but a large part was dissipated in a spirit of levity that illustrates the utter disregard shown by the Liaptchev administration for the obligations it assumed in formal protocols to private creditors. It shows at the same time to what extent M. Kosturkov was vigilant and anxious to cut down expenses in his department. In this he holds a record, for in the two years of his administration he reduced its expenditure by 500 millions. It was his parsimony and scrupulousness which incited his more profligate colleagues to organise the political cabal which caused his overthrow and brought just and swift retribution in the coup d'état of May 19, 1934. Thus the paper stated: "The bridge over the river Arda cost 10 millions while the one over the Sutliika though one fourth the size cost 9,800,000 leva. The discrepancy was due to the bad administration of the Democratic Entente, this will also explain why this railway line is the most expensive one in Bulgaria, costing 4,150,000 leva per kilometer". What many of us will resent even more than the improper use of of our money was that the houses destined for the refugees were very badly built and M. Vlassakov in one of his numerous articles in the *Mir*, August, 1,1933, affirmed that in the Burgas districts hundreds of thousands of leva had to be spent on repairing these houses within

a year of their termination, as 20 % to 50 % of the bricks employed in their construction were of too inferior a quality. And these imputations levelled by M. Vlassakov as to the bad housing of the refugees are well founded for deputy N. Traikov speaking in the Sobranye on March 17, 1932, complained that though these houses cost each 35,000 leva they were badly built, and the people cannot stand erect in them. 457 661

What speaks volumes for the honesty of the masses and contrasts strongly with the behaviour of its leaders is that the refugees to whom this deputy refers after complaining to him of their difficulties, of the impossibility of refunding the cost of their lands and homes to the government, expressed their readiness to evacuate them. For the lands and houses were not presented free to the refugees, but were to be bought by them on easy instalments, the State retaining a mortgage on them until fully reimbursed, The sums thus obtained are to serve for the reimbursement of the loan. By August 31, 1934 the sum of 20,203,733 leva had been reimbursed by the refugees; it is owing to the drop in the value of agricultural produce that proceeds from this head have been so scanty. Some of the funds set aside for the establishment of refugees were specially ear-marked for the draining of marshes, for Bulgaria had not sufficient land to provide for all their requirements. Apparently certain sums so destined were most uneconomically employed, provoking the righteous indignation of a talented deputy, who in his much commented and appreciated book "Among the people wrote as follows on the subject (p. 64):

The authority in charge of the settlement of refugees has bragged a lot about its efforts to drain the Indjekoy marsh (near Mesembria) and proclaiming that it had thus reclaimed a vast track of land. In fact ¾ of this area was grazing land equally as valuable as the arable land into which it will now be converted; as to the remaining part, it is below sea level and without resorting to pumping

457
661

it will remain a marsh. For the conversion of this area of 1000—1200 hectares from pasturage to arable land, 15 million leva[1] have been spent, or 15,000 leva per hectare! (the price of arable land, is less than half this figure in Bulgaria), as to the annual cost of maintaining the drains, the future alone will enlighten us. But this is not all! In order that the cattle of the future settlers may be led to pasture, six huge concrete bridges each capable of sustaining a load of twenty tons were constructed. Will they start breeding Brobdingnagian cattle in these newly opened lands, or is it in tanks that they will transport their harvest? — six bridges costing six million leva. If this is not waste I do not know what else it may be called. At a short distance, all in a group, six colossal bridges, while along the whole lower course of the Kamtsia, that of the Taka Dere and the Karabounar river there is not a single bridge, so that whole districts remain isolated, as if in foreign territory. Thus insensately millions out of this much advertised refugee loan have been dispersed. Let us pray these millions will soon be exhausted in order that these mad acts may also cease."

In the face of these facts are not American and British bondholders entitled to call to account the Financial Committee of the League of Nations and to ask for an explanation not only of their own behaviour but of that of their delegate in Bulgaria, M. Charron, who apparently was too engrossed in contemplating the natural beauties of that country while rolling along in his luxurious Mercedes car, provided as M. Muchanov stated at the cost of some 700,000—800,000 leva out of the moneys subscribed by the bondholders of the Refugee loan?

The debates in the Sobranye on the so-called Stabilisation Loan raised in 1928 reveal that the same policy of exploiting the difficult position Bulgaria was in continued, naturally with the connivance of the same ministers and in spite of public opinion, as far this may be ascertained in Bulgaria, which was decidedly against the conclusion of the loan, as it could be clearly foreseen

[1] This is an underestimate, according to an official report dated March 24, 1933 the sum expended on draining this marsh was 19,230,866.

that it would bring no relief, but that on the contrary it would only involve fresh burdens for the country. The triumvirate, Liaptchev-Mollov-Burov which was in charge of the government had come to the conclusion that the more commercial and private debts Bulgaria concluded the better, for they would certainly get precedence over the political, and that the payment of the latter would be suspended in order that Bulgaria might pay the former. It was thus good policy to run into debt in order to avoid paying indemnities, and in the meantime Bulgaria in her turn had the satisfaction of squeezing something out of her exploiters. It was an astute deal, and the disappointment and loss subsequently inflicted on the financiers who undertook the underwriting of these loans was fully deserved by them. What one regrets is the small investor who fell a victim to the intrigues and cupidity of these two rival camps of astuteness and rascality. When taken subsequently to task in the Sobranye for his financial policy, the late M. Liaptchev attemped to vindicate himself by hinting that default on a large scale would ensue, thus turning to his successor in office, M. Muchanov he made this illuminating remark:

> There will be no loss to Bulgaria. The Prime Minister affirmed in the Committee of Foreign Affairs that he would buy up all the bonds of these two loans for 500 millions. Is it not so M. le President ?

M. Muchanov's answer is not recorded in the Parliamentary minutes (Sept. 6, 1932), evidently it was not politic to dilate on such a thorny matter for... "taisez vous, mefiez vous, les oreilles enemies vous écoutent!"

British investors who subscribed to these loans did so because they inferred that their Government which was represented on the Council of the League of Nations which had approved them, had likewise done so. Their savings were supposed to be safeguarded from improper

•457 use by international control in which their own Government was to participate, and if there has not been proper supervision it should shoulder its share of responsibility. In 1933 the British Government went out of its way and paid £5,500,000 in order to meet "a moral obligation" on its dollar bonds of 1917, though there was no legal obligation upon it to assume a liability of which it had been relieved by the action of the United States when it went off the gold standard and abrogated the gold clause. The Chancellor of the Exchequer championed with considerable warmth the rights of these bondholders "until a short time ago" he said, "they had every reason to suppose that those rights were valid. In these circumstances we came to the conclusion — indeed, we could not resist the conclusion — that we had some moral obligation towards these people etc". Sir Stafford Cripps and others denounced in very plain language:

"We do very strongly resent this special finding of £5,500,000 for the City of London, because that is what it comes to. . . If we were going to embark on that principle there were better recipients of our bounty than the bondholders of this particular issue. The vast majority of these bonds were now in the hands of quite different people from those who originally lent the money".

Nevertheless the measure was passed and a precedent created which may be usefully invoked by British holders of these Bulgarian loans, who if they cannot secure an indemnity from their own Government should at least secure its support for obtaining a more equitable share in the distribution of the available assets.

However some people may criticise this act of the British Government it serves to emphasize one principle, namely that investors who have suffered a loss through depreciation of currency are entitled to some compensation. This must have been acknowledged even by the

11: Logio S-4 (no date) 1936 EE1 Bulgaria EE1

•457 Bulgarian Government when it agreed to repay its pre-war French loans on a gold basis instead of in paper francs. What is somewhat disconcerting however, is that having shown itself so punctilious towards its French creditors it should have failed to comport itself in the same manner towards its American and British creditors, who more gentlemanly, and imbued with a greater sense of fair play, had not attempted like the French to make Bulgaria shoulder the loss which their own governments had inflicted on them by decreeing the depreciation of their respective currencies.

As has been explained, a preliminary condition for the conclusion of the Refugee loan was that of Bulgaria's acceptance of the revalorisation of her pre-war debts, a condition which was clearly a case of favouritism at the expense not only of the Bulgarian public, but also of *bona-fide* investors in this loan. This same policy, though on a smaller scale, was also pursued in connection with the 1928 loan. In order to secure the necessary revenue for the payment of the service of the loan, the Reparation Commission agreed to waive its rights on the customs revenues of the State and assign them specially to this purpose. Art. 132 of the Treaty of Neuilly had pledged all assets and revenues of Bulgaria to this Reparation Commission. The rights of the latter on this branch of revenue were implicit and indisputable for whatever claims German nationals may have had on this particular item they had renounced them, as becomes clear by art. 139 of the same Treaty which plainly stipulates: "If, in accordance with articles 235 and 260 of the Treaty of Peace with Germany, all rights, interests and securities held by any German... national under the contracts and agreements regulating the loan concluded by Bulgaria in Germany in July 1914, are taken over by the Reparation Commission, the Bulgarian Government undertakes to

• 457 do everything in its power to facilitate this transfer". This loan alluded to, had been contracted by the Diskonto Gesellshaft, but as this German bank had not fulfilled its part of the contract with the Bulgarian government, all its rights had lapsed; besides the Bulgarian Government had a formidable range of claims against the Germans, so that there was not a ghost of evidence to show that there was the slightest justification for raising this veritable skeleton in the cupboard. As M. Liaptchev himself admitted in the Sobranye on June 28, 1928. „We appointed a judicial commission to consider the Diskonto Gesellschaft's claims and it has reported that it had no legal ground whatever for them". Nevertheless the Financial Committee of the League of Nations thought that this question of the Diskonto Gesellschaft's lapsed rights might serve as a colourable pretext for extorting from the wretched Bulgarian peasantry a few hundred millions. As to the motives which inspired this sudden solicitude for the German bank no one can be so artless as to entertain any doubts. As the Sobranye would have rejected outright the loan if this proposed indemnification of the Diskonto Gesellschaft had been divulged this was judiciously hidden from the deputies as becomes evident from a passage in the interpellation addressed by the veteran Bulgarian parliamentarian, M. Ilia Gheorgov, to the Government on March 16, 1928,

> "It is rumoured that Bulgaria will be forced to assume certain engagements towards the Diskonto Gesellschaft. A parliamentary regime demands that the Chamber should be consulted and not placed before a *fait accompli*".

When later it became known that the Liaptchev administration had accepted to satisfy the Financial Committee's demand on this subject a chorus af denunciations arose in the Sobranye, M. Muchanov, the leader of the Opposition declared on June 28, 1928: "Since the

Govern ment knew that this question had to be settled before securing the loan, it ought to have asked the Sobranye's opinion prior to accepting the loan protocole." M. Pastuhov, one of the leaders of the Socialist party added: 457

"This secret should not have been kept from the Sobranye by the Minister of Finance so that the acceptance of the loan protocol might be made easy. His assurance that nothing is to be paid to the Diskonto out of the loan is humbug; the latter bank being now in close association with English and other banks, its claims will be considered".

While M. Gheorghov again denounced the unparliamentary attitude of the government in mystifying the Chamber and insisted that at least the question of Bulgaria's claims against Germany should be simultaneously discussed with those of the Diskonto Gesellschaft. The voting of this loan caused an uproar in the Sobranye and what proves its unpopularity was that it split the Government majority, usually a body characterised by extreme docility and keen attentiveness to the behests of those on high. The feelings of every independently minded and intelligent Bulgarian were correctly interpreted by Dr. Beshkov, an Opposition deputy, when he affirmed in the Sobranye on November 14, 1928:

"With an annual deficit of some 500 millions in our balance of payments increased by 170 millions of the annuity of the Refugee loan and by 250 to 260 millions that of the new loan, all the reserves at the National Bank will soon be exhausted and a new loan needed. The present loan will only serve to stabilise temporarily the party in power but not our national economy. We shall not vote for it".[1]

Another deputy. M. G. Petrov was equally outspoken:

"In a few years the funds provided by the loan will be exhausted and we shall find ourselves in the same situation as now The deficits in the budgets arise from the payment of political debts; by

[1] Both the former Prime Minister M. K. Gheorghiev and Minister of Finance, P. Todorov, who were deputies and nominal supporters of the Government voted against the loan.

457 balancing them with loans we simply transform political indebtedness into commercial or private indebtedness".

It is idle to contend that the Financial Committee of the Leangue of Nations was not aware of the state of affairs in Bulgaria and that it allowed itself to be hoodwinked by that quintessence of diplomatic finesse, the triumvirate Liaptchev—Mollov—Burov. It bears even a greater share of responsibility than these Bulgarian Ministers, for the loas investors in these loans have suffered, since it cannot even offer the same justification for its acts as the latter, who as several Bulgarian deputies affirmed, contracted the loans in order to stabilise, at least temporarily, their seats on the Ministerial bench. What greater condemnation can there be of this insensate policy than that contained in the utterences in the Sobranye of M. Stefanov, the succeeding Minister of Finances, on June 17, 1932 and July 10, 1932:

"Bulgaria could have done without any loans these last years, in such a case she would have had to provide 600 million less annually, this being the amount she has to disburse now on account of the last two loans and for the revalorisation of the pre-war loans. This would have constituted a great relief, and would have allowed Bulgaria to live without worries... The burden of the reparations has not worsened our condition as we ourselves have worsened it by our financial and other transactions. It is true that the reparations constituted a heavy charge but this imposition can not serve to disculpate us for our errors".

457 652 In fact as soon as the proceeds of these two loans became available, the Liaptchev administration began indulging in an orgy of squandering in order to placate its adherents and to show that it could act with munificence worthy of a great government. If we turn once more to M. Stefanov's speeches we shall find him relating:

"In 1928 there were over two milliards of uncollected taxes which in the next two years had increased to 2800 millions, 75% of which could have been collected if the Government had so wished, but there was no effort to do so. No measures were taken to stop in

time the drain on the gold reserves of the National Bank and to-day we are obliged to cut down ruthlessly imports into Bulgaria for we only have foreign exchange enough to meet the requirements of 10% to 30% of our indispensable imports. There has been waste in every direction; in order to show the electorate that the Government had not forgotten it, the construction of railway lines and public works had been started in all directions and had to be suspended later for lack of funds. It will take 12 years to terminate these lines. There was no system, no policy whatever".

In another speech, on June 1, 1932, M. Stefanov informs us that the Liaptchev administration was equally prodigal in the matter of granting loans to towns and communes out of the State Exchequer, or with the State's guarantee; 2744 millions had thus been advanced of which only 400 millions had so far been reimbursed. Many communes were not paying even interest on these advances and the money might well be considered as good as lost.

Concerning the indefensible prodigality the Liaptchev administration displayed in its public works policy it is not necessary to turn to its successors in office in order to find it criticised. It was condemned even by its supporters at the time while it was still indulging in this phenomenal profligacy. Thus in the Parliamentary minutes (June 28, 1928) we read of M. D. Neikov, a government supporter who proceeded to lecture the Government in the following terms:

"The Government has no plan in railway construction and complete anarchy prevails. Eighteen lines are being constructed simultaneously. We start constructing and then suspend work. The earthworks of the Tserven Breg-Teteven line had been completed but the work stopped and the elements have washed them away. If the line is to be constructed the work will have to be done over again. It is the same with the Panagurishte-Plovdiv line. What are we to say however about the fact that, having already a railway between Sarambey and Tsepino, the Government starts constructing a parallel line Tatar-Pazardjic-Tsepino. Does this not prove that we are

457 actuated not by our country's interest but by those of our partisans or by our own private ones?"

65r This speaker was succeeded by another Government deputy, M. G. T. Popov, who confirmed his colleagues' recriminations in the following rejoinder:

"Whoever passes by Tatar Pazardjic sees that money is spent uselessly. . . This railway line is a monument of waste and extravagance".

457 Similar criticisms might be quoted ad infinitum, they came both from official and unofficial circles and bondholders may well ask what was the delegate of the League of Nations doing? True, his functions were to see that the Bulgarian Government made arrangements to pay the annuities of the loans, but it was easy to foresee that the wastefulness of the Government was rapidly exhausting the resources of the country and that it would be impossible to provide for the payment of the coupons in a few years. But apparently there was a cordial entente between the custodian and those who had been confided to his custody. Obviously, if the Financial Committee had imposed on the Bulgarian Ministers the acceptance of the revalorisation of the Bulgarian pre-war loans entailing a supplementary charge of 8500 million leva (see M. Yanulov's speech in the Sobranye (Feb. 12, 1929) to the Bulgarian Exchequer, such generosity had to be requited by the Financial Committee blinking at the intensive "affairisme" of their clandestine associates. This occult fraternisation lasted sometime, for the Bulgarian Ministers equally agreed to raise no opposition about the resurrection of the Diskonto Gesellschaft's untenable claims solemnly abrogated by Articles 235 and 260 of the Treaty of Versailles, and Article 139 of the Treaty of Neuilly. This shady transaction resulted in Bulgaria being saddled with a further total charge of 20,825,000 gold francs, repayable in annual instalments until 1944. In this case no French

politicians, ever alert to denounce threatening infringements of their sacro-sanct Treaties, denounced this gross violation of both Treaties of Neuilly and Versailles. Of course it was a mere matter of fleecing some Bulgarian peasants, or of relieving some American and British investors of a part of their superfluous wealth so why bother about such trivialities! This harmonious co-operation between the Financial Committee of the League of Nations and the Liaptchev Government would have gone on still, for the gullibility of the investing public is well known, and the sign-post of the League of Nations as an association of underwriters is bound to inspire greater confidence than that of a Hatry or a Krüger. 457

The floating of loans presupposes the existence of needy borrowers, spending therefore required encouragement, for if borrowers did not spend the money they raised, they would have no need to resort anew to the bankers. This is self evident and explains the profligacy of the Liaptchev administration, which turned a deaf ear even to the disapprobatory remarks of its more parsimonious supporters. As Prof. G. P. Ghenov affirmed in the Sobranye on May 16, 1932:

"Its policy was to govern the country by concluding loans every three or four years. It had prepared the preliminary steps for the conclusion of a loan destined to foster Bulgarian co-operative societies".

But those Bulgarian peasants proved too suspicious; the members of the co-operatives gave the alarm. The contents of this cornucopia which the Government wanted to empty on them must contain mixed blessings, it smacked of *"timeo Danaos et dona ferentes"*, for surely foreigners were not going to shower their gold on Bulgaria for nothing! So that when the electorate was consulted in 1931 M. Liaptchev's applecart was upset to his immense surprise and dismay. This was a stroke of luck for the

457 would-be investors in that prospective Bulgarian Co-operatives' Loan which the League of Nations was preparing to patronise; for those would-be investors might now have been in the same fix as the bondholders of the two other loans floated under the alluring and alas! delusive aegis of the League of Nations.

457 65 The Refugee Loan floated in 1926 was labelled in pounds sterling and dollars and was in its great bulk subscribed by American and British investors. It was repayable in 40 years, the price of issue was 92 and the yield 7%. The nominal amount was £3,300,000 and $4,500,000 but the net proceeds available to Bulgaria were £2,112,000 and £3,915,000 for some £625,889 were employed for the reinbursement of the Bulgarian Exchequer bonds issued in 1912-1913 to the French Banque de Paris et des Pays Bas. The money borrowed had been in French francs and the bank was repaid in the current rate of the franc and not in gold and though this arrangement seemed quite fair, yet there were Bulgarian deputies who considered that the Bank had been unduly favoured. (See Prof. P. Stoyanov's speech in the Sobranye Sept. 24, 1926). But when, one comes to consider the case of the revalorisation of the pre-war loans, it is apparent that it was a case of swallowing the camel and straining at its tail. Specific revenues were assigned to its service such as the excise on salt and alcohol and the proceeds of the match monopoly. Further, the Reparation Commission agreed to suspend the payment of reparations if such transfers were likely to affect the stability of the Bulgarian currency. A further security was provided by the fact that the State had undertaken to place at the disposal of the refugees 132,000 hectares of land, and the refugees were to refund both the value of the land and of the houses to be built out of the funds provided by the loan. The money to be

457
652

derived from this source was to be earmarked for the repayment of the loan. For this purpose the farms of the refugees had been mortgaged to the Bulgarian Agricultural Bank, which was to supervise the refunding of these sums by the refugees. To all intents and purposes there was full security, the special revenues assigned to the service of the loan providing three times the amount needed for its service though recently the yield of these taxes has slightly decreased. Repayments by the refugees have dwindled, for owing to the fall in the price of agricultural produce they are not in a position to continue the reimbursements of their mortgages. A large number of them had been expelled from Greece, but by the Kalfov-Politis and the Mollov-Cafandaris protocols, which received the sanction of the League of Nations, Greece had undertaken to indemnify them for their possessions which they had left behind. Bulgaria had likewise bound herself to indemnify such Greeks as emigrated from Bulgaria. As the number of Bulgarians who were forced to leave Greece was far in excess of the Greeks leaving Bulgaria, there was an outstanding balance due by Greece to Bulgaria of 1,030 million leva, which sum had it been transferred to the Bulgarian refugees (See M. Smilov's speech in the Sobranye May 5, 1932) would have served for the paying off by them of their mortgages to the Bulgarian Agricultural Bank, and the money would have been used for the gradual repayment of the loan. Nothing, however has been done to compel Greece to carry out her obligations on this head. The Kalfov-Politis agreement admits that the obligation is of a private character, and that the balance arising from the exchanged properties should be handed to the refugees. This stipulation however is not refterated in the Mollov—Cafandaris agreement which superseded it and Greece now takes advantage of the moratorium on inter-government liabilities to put off the settlement of this debt claiming that

• 457
652

it is not a private matter but a governmental one. Prof. G. N. Ghenov speaking in the Sobranye on March 16, 1932 on this matter stated:

"The Hague Court to which the matter had been referred found that it was not within its province, but the case of the Hungarian optans proves the rectitude of Bulgaria's point of view, namely that it was a case of private debts which should be respected. Bulgaria had concluded a loan to enable these people to settle, if she receives money from Greece she will reimburse the loan, if she is not paid why should she be bound to pay in her turn"?

A perfectly judicious remark, though hardly reassuring to the bondholders who had better see that justice be done to Bulgaria if they wish the latter to do justice to them.

According to official data, a total of 1,619,064,310 leva provided by the State had been expended on the winding up of the department entrusted with the settlement of refugees, on the housing and assisting the refugees, draining marshes, constructing roads, and the railway line Rakovski—Mastanli etc., according to the summary appended below:

	Leva
Preparatory work on lands	77,879,200
Seeds etc.	75,167,806
Cattle	182,097,700
Agricultural implements & carts	81,026,153
Construction of houses	657,692,692
Draining of marshes	122.584,359
Railroad line Rakovski-Mastanli	324,872,617
Roads	13,971,109
Hygiene, Anti-malaria campaign etc.	18,220,905
Water adduction and improvements	36,330,852
Accountancy & general expenses	53,589,570
Total. . .	1,643,432,963

According to a statement by M. Gr. Vassilev in the Sobranye (Feb. 3, 1932) 30,099 families had been financially assisted and settled in rural districts and 7,896 in urban localities. The majority had come from Greece;

7,896 from Western Thrace and 11,705 from Greek Macedonia, 1,240 from Serbian Macedonia 1856 from the west confines of Bulgaria which had been ceded to Serbia, 3,748 from the Dobrudja, and 15,802 from Turkey. There were a few thousand families which had not been in need of State help. 457 652

The balance of the loan over and above the 1,643,433,963 leva was not used for productive purposes; it served to pay reparations and debts, a matter which was strongly criticised in the Sobranye and which has been referred to.

The Stabilisation Loan floated in 1928 was labelled in pounds sterling, dollars, and French francs and was issued for the nominal amounts of £ 1,800,000. $ 13,000,000 and Frs. 130,000,000, the net proceeds being £ 1,616,713-13-0, $ 11,910,750 and Frs. 116,350,000, or a total of 3,370,065,553 leva. The price of issue was 96 in England, 97 in the United States and 98·20 in France, and the yield 7·5%.

The revenue from customs affected to the service of the loan was far in excess of the amount required, and although there has been a marked falling off in custom dues, yet the amount raised annually is still sufficient (774 millions in 1932-3 & 514 millions in 1933-4) to provide twice over the requisite sum. The proceeds of the loan were utilised as follows: £ 1,500,000 paid to the National Bank in partial reimbursement of its advances to the State, £ 500,000 and £ 150,000 each to the Agricultural and Co-operative Bank, so that their scope of action might be extended, £ 1,100,000 were used to wipe off budget deficits, £ 1,250,000 employed for the overhauling of railways, roads and ports, and £ 500,000 for repairing the damage caused by the earthquake in the Plovdiv region. Simultaneously the sphere of action of the National Bank was rigorously limited and defined so as to shield it from all interference from the State.

457
652

Thus the amount of exchequer bonds it was allowed to discount was limited to 400 million leva and a foreign counsellor was appointed to supervise its accounts and report to the League of Nations on its activities.

Bulgaria, like other countries, has been severely hit by the fall in the price of agricultural produce which has happened since 1929. There has been a marked drop in the State revenues with the result that the budget has continually been closed with deficits, but owing to the draconian measures adopted since 1929 with the object of curtailing imports and thus restricting the outflow of gold from the country, the government has succeeded since 1930 in transforming an almost perpetually passive commercial balance into an active one (except for the year 1932 which showed an excess of imports over exports of 88 millions). Unfortunately, owing to the existing system of clearings and quotas, the realised surplus from excesses of exports over imports to and from one country is not always available for the discharge of a debt towards another country. The principal creditor countries, Great Britain, France, and the United States continue to export to Bulgaria far in excess of what they import from her. Especially this is so in the case of England, for until quite recently Bulgaria used to buy from her six to seven times as much as what she sold. It is obvious therefore that Bulgaria was not in a position to transfer sufficient sums with which to pay her excess of imports over exports, and at the same time to effect the service of her debt towards these States. It devolves on these countries to furnish greater trading facilities to Bulgaria, in order that she may be in a better position to discharge her obligations. This is especially incumbent in the case of Great Britain, which is in the course of losing one of her most valuable clients in the Near East, her exports to Bulgaria having gradually dwindled from 738.9 in 1929

to 152.2 in 1933 and 143 million leva in 1934 while her imports were reduced from 100.08 to 49.8 million leva between 1929 and 1933 (53 millions in 1934). 457 65

The surplus from the commercial balance is the only source from which external debts may be paid, since the gold resserves of the National Bank can not be further drawn upon without compromising the stability of the currency, and Bulgaria has no foreign investments providing other invisible resources. Owing to the continuous shrinkage of the exports and the consequent reduction of this surplus (160.1 million in 1930, 1,274 millions in 1931, a deficit of 88 millions in 1932, a surplus of 644 millions in 1933 and of 288 in 1934) the Bulgarian Government has found it impossible to meet its liabilities, notwithstanding the fact that owing to the moratorium on inter-governmental debts, it has been relieved of the obligation of providing annually some 10 million gold francs under the head of reparations. Thus in 1932 it was obliged to demand a partial suspension of its payments abroad, and this was conceded in the form of a reduction on the interest of its exterior debt to the extent of 40%. But this concession proved insufficient, and by an agreement signed in May 1934 the percentage of the interest payable was further reduced to 32.5% of the original sum for a period of two years, expiring on April 1st, 1936. By the end of 1934, however owing to the shrinkage of the excess of exports over imports, the Bulgarian Government declared itself unable to carry it out, and demanded that the rate of interest payable on its exterior debts should be reduced proportionately to its available resources. Its request is justifiable; since the creditor countries refuse to buy Bulgarian produce wherewith to provide their debtor with the means with which it can discharge its obligations, Bulgaria's creditors must bow to the inevitable. American and British bond-

457 652

holders of the two last loans, however, are entitled to insist on a better repartition of the available surplus, for in this matter they have been wronged. Owing to the depreciation of their national currencies they were being paid 40% less by the Bulgarian Government than what the latter was paying to the French subscribers of the Stabilisation loan.

In fact while the latter received 32 ½% of the original amount of interest due, American and British bondholders were only receiving 19%. But what seems a far greater injustice is that while American and British bondholders have forfeited 40% of what is due to them, owing to the depreciation of their national currencies, holders of the Bulgarian pre-war loans, labelled in francs, in spite of the fact that the currency in which their bonds are labelled has depreciated to the extent of 80%. should be receiving preferential treatment in the form of a gradually appreciating payment which will shortly attain gold parity. If American and British bondholders were being paid in full in their national currency, there would be no cause for complaining, but when Bulgaria who has taken full advantage of the depreciation of the pound sterling and of the dollar, and proceeds to reimburse her French creditors not in their national currency but in gold, and using for this purpose a portion of the available sum which is the common property of *all* her creditors, it is high time that a halt should be called. Naturally French bondholders who are always strongly backed by their government, will exert the utmost pressure on the Bulgarian Government in order to maintain their present position of vantage and it is useless to appeal to the Financial Committee of the League of Nations which has itself sanctioned this favouritism. The latter really represents the interests of International Finance and these birds of prey have shared the booty plucked from hapless Bulgaria, by ceding the spoils derived from

the revalorisation of her pre-war loans to the French group while reserving the proceeds of the opportunely resurrected claims of the Diskonto Gesellschaft to the Anglo-American or British groups. These are matters which even peasant deputies are conversant with in Bulgaria,[1] and which are powerfully working to poison public opinion against the West which alas! has distinguished itself rather by its rapacity than by anything else, and contributel to turn the country Bolshevik.[2]

The only hope for American and British bona-fide investors in these loans to better their position, is to organise themselves into a committee and take up the defence of their own interests. If they insisted on a more equitable distribution of the available surplus, not only they would get as much as they were receiving under the agreement of May, 1934, but they have a chance of bettering their position. The amount needed for the annual service of Bulgaria's foreign debt by this convention is some 236 million leva, while the available surplus of exports over imports for the year 1934 is 288 millions. It would seem therefore that the paltry 19% (instead of 32½%) of the interest originally due to them and which was served out to them by the above mentioned convention could be substantially increased. It lies also with the

[1] While the Stabilisation loan was discussed in the Sobranye, M. H. Baev, a peasant deputy, got up and in a vigourous invective denounced the Government for endeavouring to bamboozle the opposition by assurances that no promises had been given to consider the defunct claims of the Diskonto. "These" he said," had been bought for a mere song by English bankers and Bulgaria would be made to pay for them through the nose."

[2] One may well sympathise with Prof. F. Soddy when he proceeds to denounce the doings of international bankers and financiers and exhorts us to do away with "a hierarchy of impostors and humbugs whom it is the first task of a sane civilisation to expose and clear out". ("The role of money" p. 214).

quate reason. It would certainly be unfair and injudicious on their part to insist on exacting their full pound of flesh, such a strangulation of Bulgaria in the interests of a creditor minority would not be tolerated. But a demand on the part of Bulgaria for an alleviation in the charge of the actual debt is justifiable in view of the fact that the fall in world prices has increased the burden of the world's debts very considerably, and has therefore correspondingly improved the position of all creditors.

The extent to which this burden has increased, owing to the fall in agricultural produce in respect of these two League of Nations' Loans may be gauged by a very instructive article published a few years ago by the Association of Bulgarian Economists, which shows the respective values of the loans in tons of wheat at the time of their conclusion, and in 1930. It was thus explained that the total proceeds of the two loans at the time of their subscription was equivalent in value to 957,066 tons of wheat, while by 1930 owing to the fall in the price of commodities, Bulgaria would have had to provide 2,638,317 tons of wheat to raise the same amount of money wherewith to repay her debt. This shows to what extent Bulgaria's paying capacity has been impaired, but even if we adjusted it on this basis we should find that she should pay 35% of the original interest instead of the paltry 19% which she taking advantage of the depreciation of the American and British currencies has been serving out until quite recently to the American and British bondholders.[1] This

[1] By an arrangement arrived at in April 1935, the Bulgarian government will continue paying 32½% of the interest due on these loans until Sept. 30, 1935. but of this amount only 15% will be transferred abroad for distribution, while the balance of 17½% will be placed to the credit of a blocked account. Discussions as to subsequent payments are to be resumed in October 1935. The dividend distributed during July 1935 on the Refugee Loan amounted to £5—5—0 per

is hardly fair and if this be brought to the knowledge of the Bulgarian public, it will itself protest against the discrimination which is being exhibited towards a section of its creditors. But unfortunately both the Bulgarian Government and public are helpless, they are bound by the shackles of the Treaty of Neuilly, they are not masters in their house. they are precluded from redressing the wrongs they suffer from, and which are inflicted on others in their name. It is rather on the American and British bondholders that this duty devolves, and when the latter decide to demand a more equitable treatment, let them realise that ~~it~~ entails also a larger share of justice to Bulgaria. For if the revalorisation of the pre-war debts

£1000 of nominal capital, but if the depreciation of the dollar and pound be taken into consideration, this was tantamount to a rate of 0·7% per annum. It will be of interest to bondholders to know that payment at the rate of 15% of the sums due on its foreign debt involves a total charge to the Bulgarian exchequer of 105,667,655 leva apportioned as follows among its foreign committments:

On the pre-war loans	40,735,216
" " two L. of N. loans	42,346,464
" " upkeep of the delegates of the pre-war loans & of the commissary of the L. of N.	4,674,236
" " 6½% 1923 loan	3,063,128
" " sum due to the Diskonto Gesellshaft	3,616,440
" " 7% 1923 loan (utilised for settlement of the des Clusières affair	640,594
On the amount due to the Jonction Salonique-Constantinople railway (paid integrally 100%)	10,561,387

Bondholders should note that if interest on the pre-war loans were paid in paper francs, the amount to be disbursed would be about a third of the 40.735,216 earmarked for this purpose. It would be well if explanations were asked as to why the Bulgarian gorernment is burdened with the upkeep of a special delegate of the holders of these loans, for the commissary of the L. of N. could attend to this job and a saving of over two million ,leva would thereby be effected. An explanation is likewise due as to why the railway Jonction-Salonique is receiving preferential treatment.

457 435 and the payment of an indemnity for the fictitious claims of the Diskonto Gesellschaft be suspended, this means a considerable alleviation of the charge laid on Bulgaria's shoulders. They could equally raise the question of the payment of the sums outstanding to the refugees, for whenever, and if, these unfortunate people recover their due, they will hasten to refund the mortgages on their houses and the money thus recovered will be at the disposal of the bondholders. It should not be forgotten that the sums outstanding are not negligible, 1,030 million leva from Greece and almost ten times as much from Turkey. Let it be remembered that Bulgaria can not recover this money without international support because she has been disarmed and rendered helpless mainly at the instigation of her despoilers. Such interference, it is true, implies the exploding of the existing fiction of a nation's sovereignty but it is high time that this outgrown conception should 008 be set aside. When a State has recourse to financial assistance abroad, it converts itself into a sort of limited company, and extends in a sense its citizenship to its creditors. The latter are as anxious as the natives for its welfare and there should be no resentment if they proceed to flash theirh searchlights into hidden places and call to account the directors of the „company" when things threaten to go astray. This is the prerogattve of all shareholders in public companies and it has proved an excellent corrective to abuse. Such interference in local affairs by foreigners has been often resented, because it is usually inspired by selfish motives, but occasionally it may be ascribed to altruistic incentives, for all investors are not Shylocks. Especially this is so with the majority of bondholders of the Refugee Loan, who, when investing in this script were under the impression they were helping a distressed country, and many of whom, when the ravages of the earthquake of 1928 became